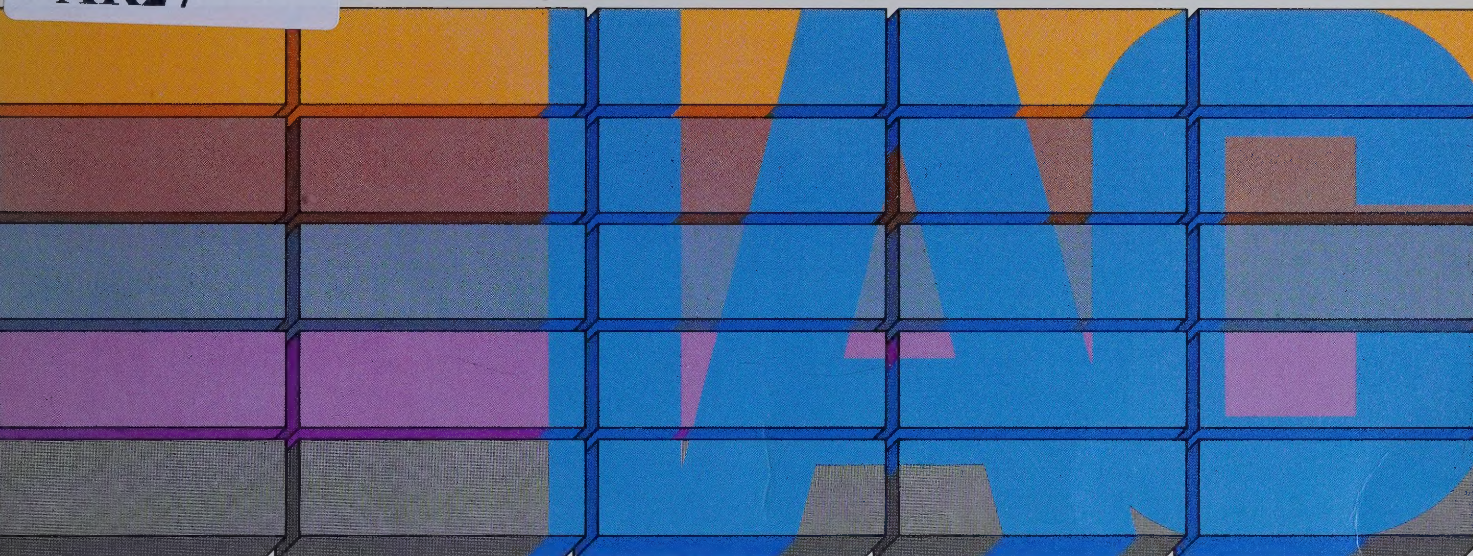
IAC Limited
49th Annual Report 1973



Highlights for the Year	1973	1972	Per Cent Increase (Decrease)
Gross Income	$ 171,547,000	$ 147,635,000	16.2
Proportion taken up by			
—Cost of borrowed money	42.7%	37.9%	
—General and administrative expenses	26.9%	29.3%	
Earnings applicable to common shares	$ 21,475,000	$ 20,960,000	2.5
Dividends paid on common shares	$ 12,478,000	$ 10,744,000	16.1
Proportion of earnings	58.1%	51.3%	
Earnings per share	$1.65	$1.65	
Dividends paid per share	$ .96	$ .84	14.3
Per cent return on average common equity	13.02%	13.84%	
Volume of Business			
Sales financing—wholesale	$1,347,917,000	$1,112,517,000	21.1
—retail	$ 629,425,000	$ 547,076,000	15.1
Consumer loans	$ 216,769,000	$ 192,739,000	12.5
Residential mortgages	$ 66,559,000	$ 41,508,000	60.4
Commercial loans and leasing	$ 124,103,000	$ 99,127,000	25.2

At the Year End			
Total consolidated assets	$1,726,415,000	$1,436,208,000	20.2
Number of common shareholders	12,510	12,672	(1.3)
—domiciled in Canada	95.9%	95.9%	
Number of common shares outstanding	13,006,293	12,988,399	0.1
—owned in Canada	95.7%	96.2%	

IAC LIMITED

Interim report

SIX MONTHS ENDED JUNE 30, 1973

IAC LIMITED

Head Office
45 St. Clair Ave. W., Toronto M4V 1K9, Ontario

To the shareholders,

Earnings applicable to common shares increased during the first half of 1973 by 4.2% to a record level of $10.60 millions which compares to $10.17 millions for the same period a year earlier. However, because of additional shares outstanding, on a per share basis earnings at $.81 were the same as a year ago.

While the volume of new business continued strong and the portfolios of receivables are in commendable condition, timing differences between increases in the company's money costs and the effect of appropriate adjustments which have been implemented in charges for its services, caused temporary reductions in margins.

It is expected that the company will be able to achieve further improvement in earnings in the latter half of this year.

K. H. MacDONALD
President

August 7, 1973

Summary of Earnings

SIX MONTHS ENDED JUNE 30, 1973

Earnings	First quarter Second quarter FIRST HALF
Preferred dividends: deduct	First quarter Second quarter FIRST HALF
Earnings applicable to Common Shares	First quarter Second quarter FIRST HALF
Earnings per common share calculated on daily average of shares outstanding (Note)	First quarter Second quarter FIRST HALF
Dividends paid per Common Share	

NOTE:

The daily average of common shares outstanding during the period was 12,991,257 (1972 — 12,465,905). At June 30, 1973, common shares were reserved as follows: 240,383 (1972 — 164,584) under stock option plans; 506,420 (1972 — 510,900) at $12.50 per share in respect of purchase warrants; and 65,240 (1972 — 217,680) at $14.28½ per share for conversion of Subordinated Debentures if converted on or before October 31, 1977. Assuming that on January 1, 1973, all these 812,043 shares reserved had been issued, 'fully diluted' earnings for the period would have been 78

IAC LIMITED and subsidiaries

1973	1972
$ 5,337,000	$ 5,000,000
5,778,000	5,690,000
$11,115,000	$10,690,000
$ 258,000	$ 260,000
255,000	258,000
$ 513,000	$ 518,000
$ 5,079,000	$ 4,740,000
5,523,000	5,432,000
$10,602,000	$10,172,000
$ 0.39	$ 0.38
0.42	0.43
$ 0.81	$ 0.81
$ 0.48	$ 0.40

cents (1972 — 77 cents) per share. The calculation assumes that earnings applicable to common shares were increased:

(1) by $16,000 representing the elimination of interest net of income taxes attributable to the 7% convertible debentures; and

(2) by $171,000 representing interest at 6.4% p.a. net of income taxes imputed to a notional reduction of borrowings by application of the funds which would have arisen had all options and purchase warrants been exercised.

Consolidated Statement of Earnings

SIX MONTHS ENDED JUNE 30, 1973

Gross Income

Expenditure

Cost of borrowed money —

Secured notes

Debentures

Casualty insurance claims incurred

General and administrative

Provision for Income Taxes

Current

Deferred

Parent company's portion of increase in unassigned surplus of life assurance subsidiary

Earnings

IAC LIMITED and subsidiaries

1973 $000's		1972 $000's	
	80,647		71,207
28,850		22,401	
3,857		4,102	
32,707		26,503	
3,776		3,346	
22,364	58,847	21,022	50,871
	21,800		20,336
6,243		7,330	
4,682	10,925	2,472	9,802
	10,875		10,534
	240		156
	11,115		10,690

FINANCIAL AND INSURANCE SERVICES

IAC LIMITED
Sales Financing • Purchase Credit Plans
Equipment Financing • Leasing
Fleet Financing • Portfolio Discounting
Capital Assets Leasing

NIAGARA FINANCE COMPANY LIMITED
Consumer Loans and Financing

MERIT INSURANCE COMPANY
Automobile, Comprehensive Home,
and Personal Liability Insurance

NIAGARA REALTY OF CANADA LIMITED
NIAGARA REALTY LIMITED
First and Second Mortgage Loans
Mortgage Discounting • Combined Mortgages

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA
Life, Key Man, and Partnership Insurance
Estate Planning

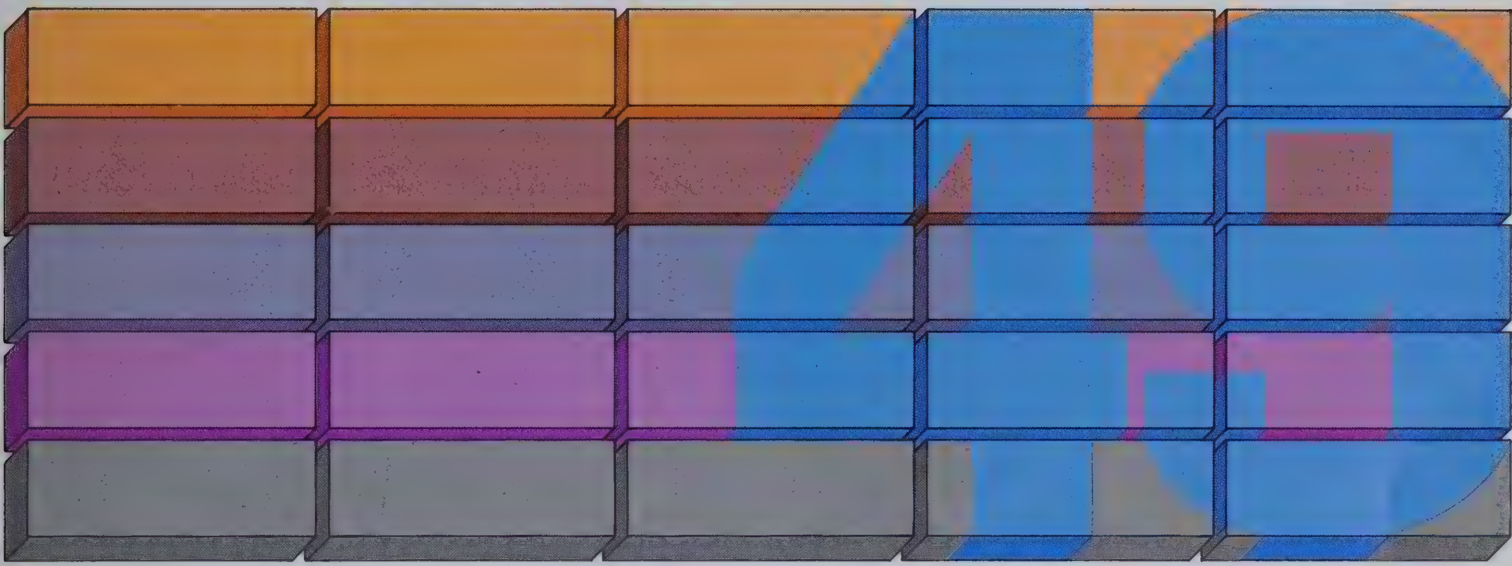
THE SOVEREIGN MORTGAGE INSURANCE COMPANY
High Ratio Mortgage
Loan Insurance

Printed in Canada

IAC Limited and subsidiaries

49th Annual Report 1973

For the year ended December 31, 1973



Contents

IAC Limited

Incorporated under the laws of Canada Feb. 7, 1925

Head Office, 45 St. Clair Ave. W., Toronto, Ontario M4V 2Y2

Si vous désirez recevoir un exemplaire en français du rapport annuel de IAC, veuillez vous adresser au Secrétaire, IAC Limitée, 45 ouest, ave. St. Clair, Toronto, Ontario M4V 2Y2

Report of the Directors to the Shareholders

Your Company enjoyed continued substantial growth in 1973. Business volume during the year reached a new high of $2.396 billion, up 19.8% over the previous high in 1972. Growth in receivables of $285 million (20.9%) followed upon an increase of $226 million (19.9%) in the previous year. During the past three years receivables have grown by a total of $565 million, up 52.2%.

Earnings applicable to common shares reached a new high of $21.5 million, an increase of $515,000 over the previous year. However, with an average of 300,000 more shares outstanding, earnings on a per-share basis were the same as in 1972.

The dividend paid per common share was $0.96 against $0.84 in 1972. This marked the 37th year in which dividends were earned and paid and in each of the last 18 years the payout has exceeded that of the previous year.

At year end, exclusive of wholesale or dealer inventory financing, receivables in the category of business credit totalled $746 million and in consumer credit, $663 million.

It is important to note that the diversification in the Company's portfolio has been accomplished by expansion into new avenues of investment rather than from reduced emphasis on its traditional lines of business.

Historically low percentage levels of defaults, delinquencies and losses attest to the sound condition of receivables. This trend to lower loss exposures results from the changing composition of the portfolio of receivables, close attention to the quality of business transacted and to efficient administration of outstandings.

During 1973, the cost of short-term funds virtually doubled. As a result, while charges for your Company's services were appropriately adjusted as the year progressed, the inevitable time lag between these adjustments and their reflection in income caused persistent pressure on margins.

As was stated in last year's Annual Report, your Company together with three other major financial institutions formed The Sovereign Mortgage Insurance Company which commenced operation in March 1973. The results achieved to date have been most encouraging and the outlook for continued progress is excellent.

During the year, Niagara Realty of Canada Limited borrowed $20 million through the issue of Secured Notes Series "D" and since year end has raised another $25 million through the issue of Series "E" Secured Notes.

In August, Mr. J. H. Ranahan, retired Chairman of the Board, resigned as a Director for personal reasons after more than 46 years of outstanding service.

Mr. Paul Paré, B.A., B.C.L., was elected to the Board of Directors to serve Mr. J. H. Ranahan's unexpired term.

The following appointments by the Board of Directors were announced during 1973:

D. W. Maloney, Senior Vice-President & Senior General Manager
R. E. Campbell, Senior Vice-President & General Manager—Operations
C. W. Neild, Senior Vice-President & General Manager—Credit
S. F. Melloy, Senior Vice-President
E. W. McCracken, Vice-President—Administration
W. E. C. Hoddinott, Vice-President
T. R. Bailey, Assistant Vice-President
G. J. Chevrier, Assistant Vice-President
J. H. Dionne, Assistant Vice-President
R. V. MacNeill, Assistant Vice-President
J. R. A. Noel, Assistant Vice-President
D. A. Rattee, Assistant Vice-President
R. S. Tunnoch, Assistant Vice-President
T. A. Wolff, Assistant Vice-President
K. E. Woodall, Assistant Vice-President
S. S. Ilaqua, Assistant Vice-President and Treasurer
C. R. Stewart, Assistant Vice-President and Secretary
J. J. Tors, Assistant Vice-President and Comptroller
R. E. Randall, Assistant Secretary

The results recorded in this Annual Report speak well for the manner in which the men and women of the IAC companies across Canada and in the United Kingdom approach their responsibilities. Your Directors wish to commend them and to express appreciation for the dedication and diligence on their part reflected in the year's results.

While the unprecedented growth pattern of the last two years may moderate somewhat in 1974 due to changes in economic circumstances, your Board expects higher and consequently new record levels of receivables to be attained in most categories. This continued growth together with some anticipated relief in money costs should ensure favourable results in 1974.

On behalf of the Board

L. E. Nichol

Chairman

K. H. MacDonald

President

Anatomy of the IAC Companies

Next year, IAC will mark its 50th anniversary as a company. As this important milestone approaches, the Company is entering a new phase in its already-impressive history of growth and diversification.

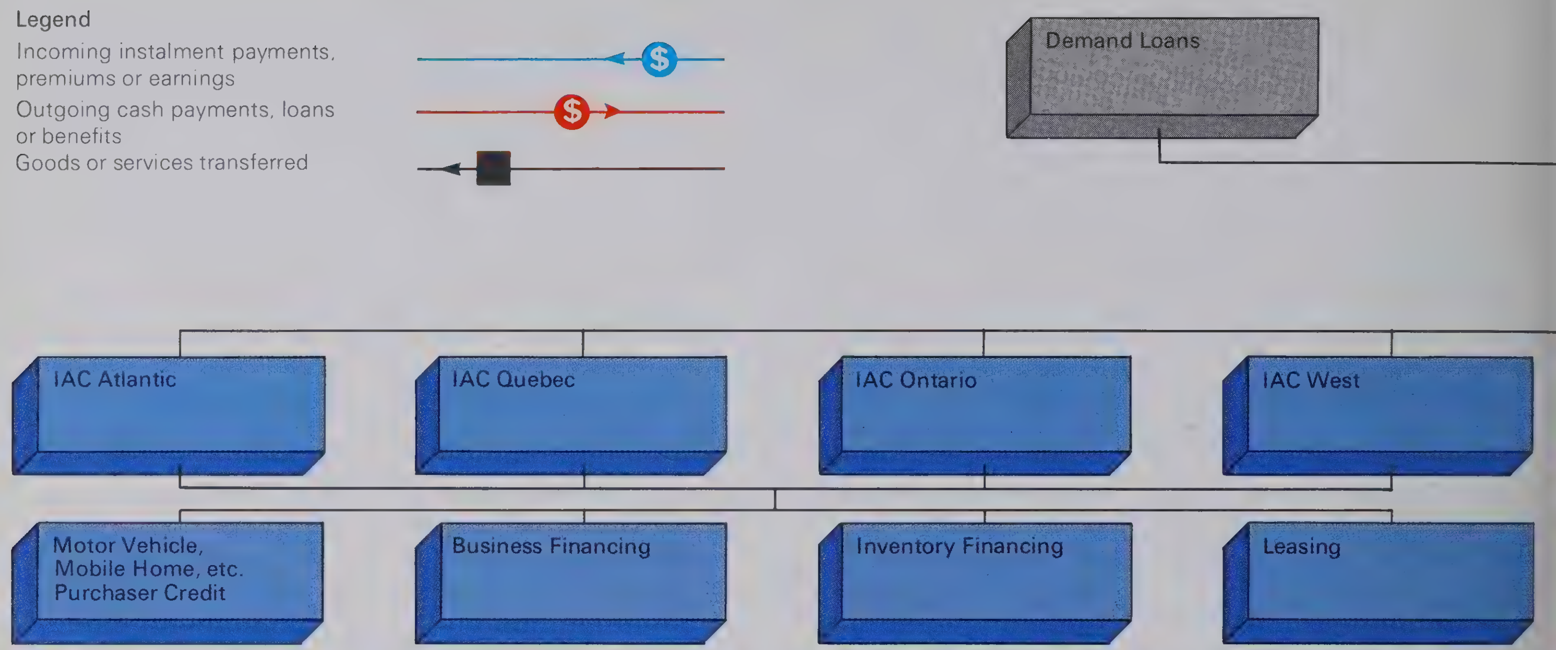
The past half-century has seen sweeping changes in the Canadian economy and in the lifestyles of Canada's people. From its earliest beginnings, IAC has played a role in bringing about those changes. At first, as befits a newly-founded company, IAC's role was a rather humble one, providing sales finance facilities for a small part of the automobile industry. But this picture soon changed as IAC's reputation for integrity, expertise and dependable service won it an ever-widening circle of friends.

IAC is still showing healthy expansion in its traditional lines of business, but the real driving force behind the Company's growth has been diversification. The IAC of the 1970's is a broadly-based company that has interests and investments in a complete spectrum of financial services, together with a network of subsidiary companies whose activities complement the IAC range. Collectively, the IAC companies now have total consumer receivables of $663 million. In business financing, where important innovations have occurred, receivables now total $986 million.

IAC's role in the Canadian economy is no longer a minor one; it has become one of this country's major financial institutions. And, at the current rate of growth, the importance of the IAC companies can only increase. In the three years from 1971 through 1973, IAC's receivables grew 52.2% — a record unmatched by any other company in this field.

It is only natural that, in the process of expanding and diversifying its operations, IAC itself has become a more complex organization. The acquisition of several subsidiary companies and the creation of a number of others have added further complexities to the picture. In an effort to clarify the structure of IAC today, and show its relationship to the various other members of the group, the chart on the following pages has been prepared. It does not show all of the details of each operation or company, but it does provide a broad overview of the present corporate organization, together with a brief description and graphic representation of the principal services offered to consumers and businessmen across Canada. Since "money in action" is the common thread that links all IAC operations, the basic concept of the chart is to depict the flow of funds from their input to IAC at the top level, down through the various divisions and subsidiaries, and on to the customers and clients served by them.

We hope this simplified "bird's eye view" of the IAC companies will help shareholders and others to understand more fully the scope and potential of a dynamic Canadian financial institution.



Motor Vehicle, Mobile Home, etc. Purchaser Credit

IAC buys manufacturers' wholesale contracts for inventories delivered to dealers, and dealers' retail contracts for units sold to customers. Dealers repay IAC as units are sold, and customers repay in instalments as stipulated in their contracts.

Business Financing

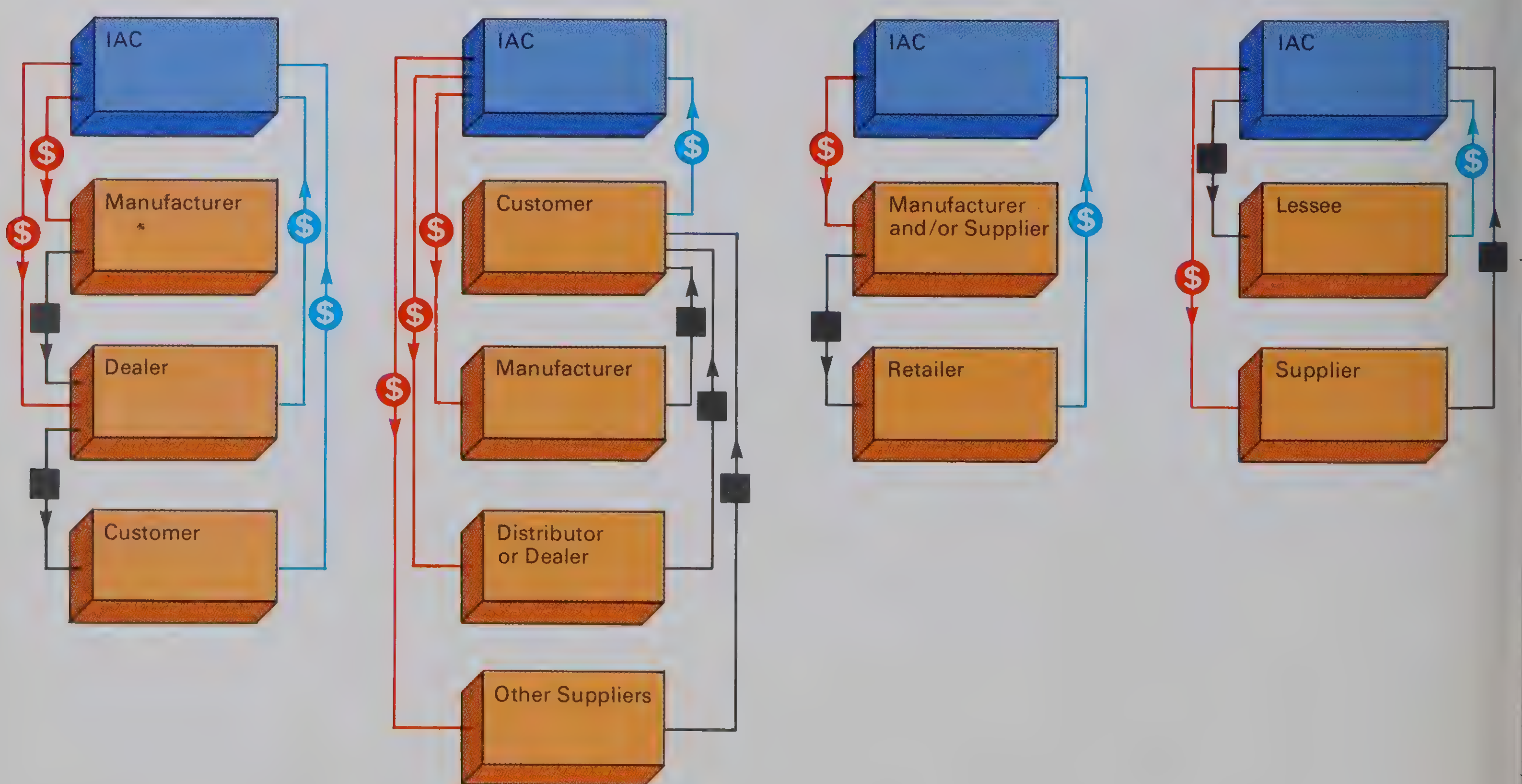
IAC buys contracts covering all types of industrial machinery and equipment delivered to the customer from a variety of dealers, distributors or other suppliers. The customer then repays IAC in instalments as agreed in the contracts.

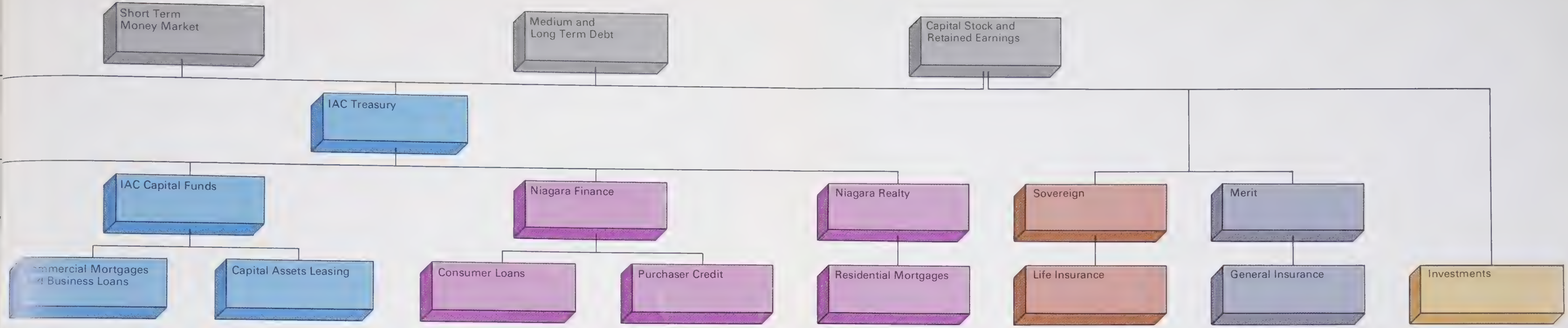
Inventory Financing

IAC buys contracts covering inventories shipped by manufacturers and/or suppliers to retailers. IAC is then repaid as each unit is sold from retail inventory. Meanwhile, IAC conducts regular audits of the inventory in stock.

Leasing

The customer selects the unit or units he wishes to lease and negotiates the purchase price with the supplier. IAC then buys the item(s) at the agreed price and leases them to the customer, who makes monthly rental payments over an agreed lease term.





Commercial Mortgages and Business Loans

IAC makes mortgage loans on land under development and revenue-producing commercial properties such as office buildings and shopping centres, and the mortgagors make regular payments over the agreed term in the usual manner. Cash loans for business purposes are also available

Capital Assets Leasing

Technically the same as the leasing service offered by the other IAC Divisions, but applied to equipment leases for major corporations. Because of the number of assets covered in each lease and the high capital cost usually involved, these leases are often quite sophisticated and complex

Consumer Loans

Cash loans ranging from a few hundred dollars up to $5,000 are made, usually without collateral, and are repaid in monthly instalments by the borrower

Purchaser Credit

Niagara provides purchaser credit along the same lines as IAC, using conditional sales contracts, for a wide variety of consumer goods such as household furniture and appliances. Contracts are paid out in monthly instalments

Residential Mortgages

Niagara Realty makes first and second mortgage loans on residential properties across Canada, which the mortgagors repay in conventional monthly instalments

Life Insurance

Sovereign Life offers a variety of individual and business insurance plans, including registered retirement programs. Benefits are paid to policy-owners / beneficiaries in lump sums or as annuities. Sovereign also generates earnings from first mortgage loans and other forms of investments

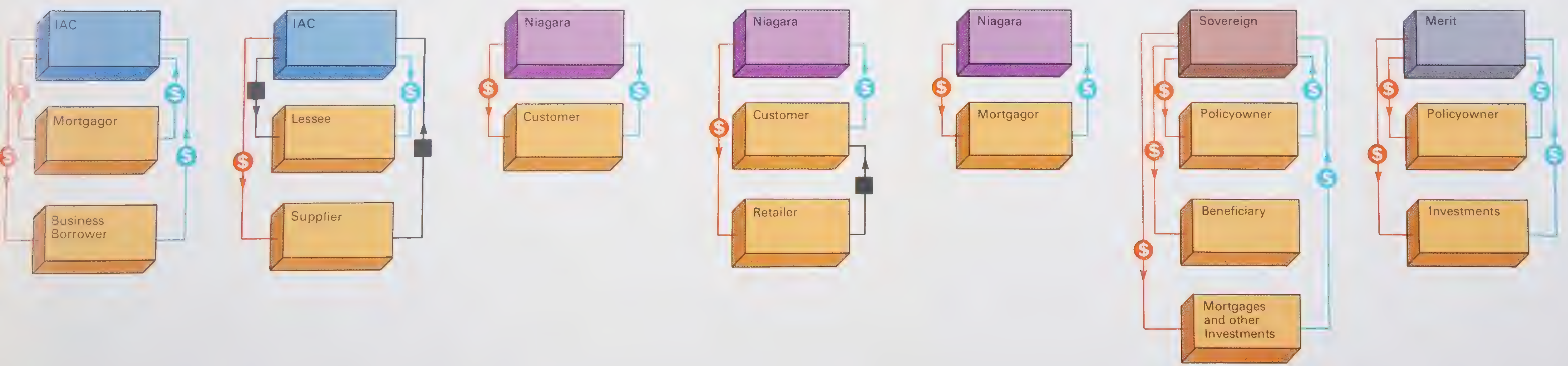
General Insurance

Merit Insurance offers automobile, fire, comprehensive home and personal liability insurance products. Premiums are paid in instalments, while benefits are paid out in lump sums as required. Merit also earns income on various forms of investments

The Sovereign Mortgage Insurance Company
Toronto

International Capital Corporation Limited
Montreal

Canborough Limited
Toronto



Sources of Funds

IAC Treasury

IAC Divisions and Subsidiary Companies

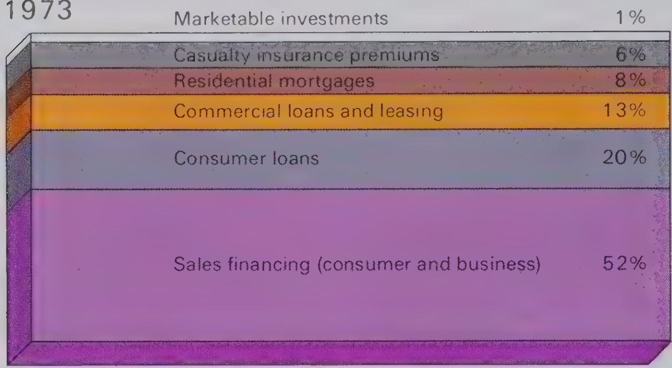
Services

Descriptions of Services

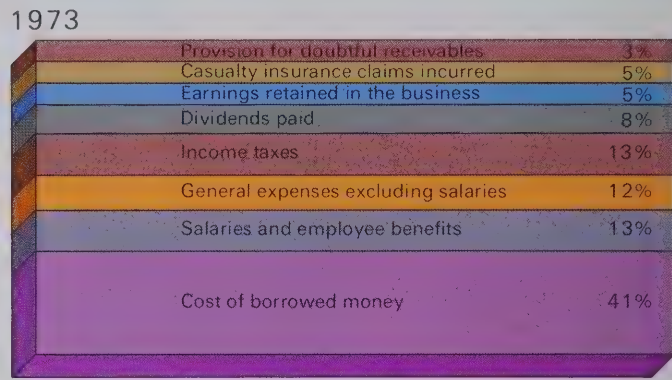
Diagrams of Services

General Commentary

Sources of Gross Income — Chart 1
(Before Provision for Doubtful Receivables)



Composition of Gross Income Distribution — Chart 2



Your company's results in 1973 were strongly affected by factors arising from current economic conditions. Consumer and capital spending were buoyant. This fact lent support to the business development efforts of the company's personnel in achieving a 20% growth in consolidated receivables. On the other hand, continuing inflationary pressures in the economy resulted in a substantial increase in the cost of funds employed by your company as well as a continued upward trend in other expenses of doing business.

Earnings

Gross income at $171.5 million was up 16.2% from the previous year.

As a result of increased volume, borrowed funds employed averaged nearly $173 million higher than in 1972, an increase of 20.5%. This fact, plus an increase in the average cost of funds to 7.2% from 6.6% in the previous year, resulted in a 31.0% increase in the cost of borrowed money.

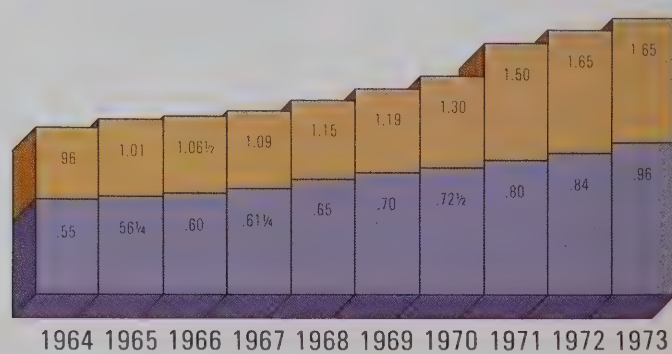
General and administrative expense increased 6.6% as compared with an increase in the previous year of 6.1%.

Your casualty insurance subsidiary, Merit, experienced a loss ratio of 75.6% as compared to 69.1% in 1972. As a consequence its earnings declined to $298,000 (1972: $421,000).

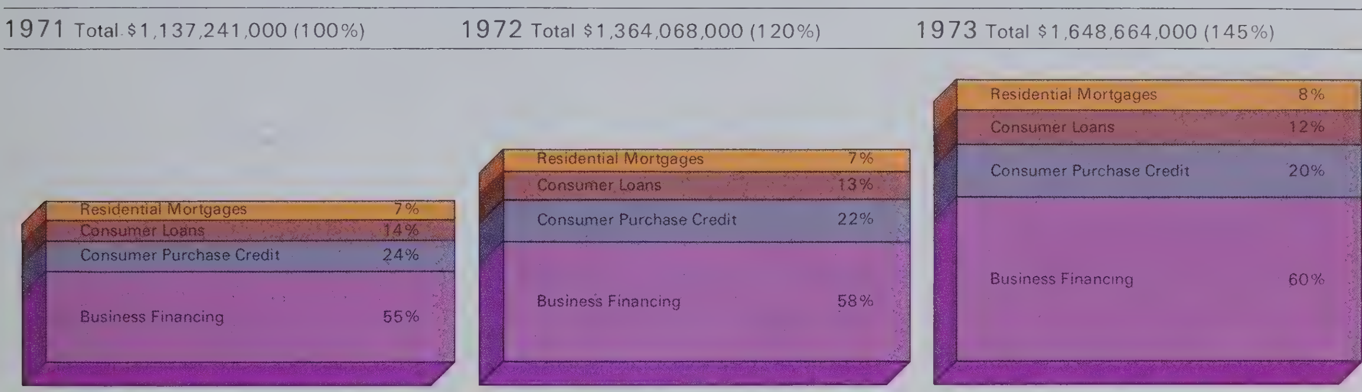
The Sovereign Life Assurance Company of Canada enjoyed excellent growth in new business written and in business in force. Its contribution to consolidated earnings increased for the seventh consecutive year. The parent company's portion of the increase in unassigned surplus was $641,000 in 1973.

The Sovereign Mortgage Insurance Company, in which your company is the major shareholder, commenced operations only in March, 1973 and achieved net earnings of $163,570 during its first ten months. The outlook for this new endeavour is promising.

Earnings per share $ / Dividend per share $ — Chart 3



Receivables and their Composition — Chart 4



Assets

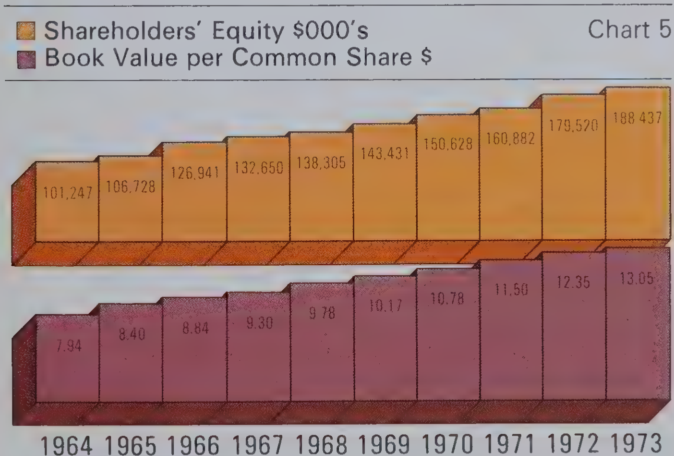
Growth was achieved in all categories of receivables which is reassuring evidence that diversification has not resulted in diminution of attention to the more traditional areas of activities.

Retail sales finance receivables increased by 19.5% and consumer loans by 13.8% from the previous year end. The most buoyant demand was for residential mortgage and leasing services, with receivables in these categories increasing by 35.5% and 36.4% respectively.

It should be noted that leasing receivables were carried on the balance sheet at $301 million, this figure reflecting our investment at the balance sheet date. Another commonly accepted method of presentation would record total rentals receivable under the leases concerned. On this basis your company's receivables would have been reported at $427.5 million or $126.5 million greater.

The allowance for doubtful receivables at $18.3 million was equivalent to 1.11% of total receivables. This compares with net losses of .29% of average receivables in 1973 and .35% in 1972. In the opinion of your management and the company's auditors this amount is adequate in relationship to the portfolio.

Chart 5



Outlook

Early results in 1974 would seem to warrant optimism. The strong demand for your company's services continues. Its receivables are in excellent condition. Its traditionally strong balance sheet reflects continued progress. Its securities continue to receive excellent acceptance by investors. Thus your company is in a good position to take advantage of opportunities for further expansion and diversification.

Financial Statements

IAC Limited and subsidiaries

Consolidated Statement of Earnings

For the year ended December 31, 1973

	1973 $000's		1972 $000's	
Gross Income (note 2)		171,547		147,635
Expenditure (note 3)				
Cost of borrowed money—				
Secured notes	65,704		47,902	
Debentures	7,576		8,017	
	73,280		55,919	
Casualty insurance claims incurred	8,278		6,739	
General and administrative	46,083	127,641	43,214	105,872
		43,906		41,763
Provision for Income Taxes				
Current	2,312		6,406	
Deferred	19,806		16,273	
	22,118		22,679	
Less: Recovery of prior year's income taxes	—	22,118	2,305	20,374
		21,788		21,389
Parent company's portion of increase in unassigned surplus of life assurance subsidiary (note 1)		641		605
Share of earnings of mortgage insurance company (note 1)		65		—
Earnings		22,494		21,994

Consolidated Statement of Retained Earnings

For the year ended December 31, 1973

	1973 $000's	1972 $000's
Earnings for the year	**22,494**	21,994
Dividends on preferred shares	**1,019**	1,034
Earnings Applicable to Common Shares	**21,475**	20,960
Dividends on common shares at $0.96 per share (1972—$0.84)	**12,478**	10,744
Earnings retained in the business	**8,997**	10,216
Gain on preferred shares purchased for cancellation	**129**	50
Increase in retained earnings for the year	**9,126**	10,266
Retained earnings at beginning of year	**116,523**	106,257
Retained earnings at end of year (note 6)	**125,649**	116,523

Common Stock Earnings Per Share	1973 $	1972 $
Calculated on daily average of common shares outstanding—12,995,747; 1972—12,694,400 (note 7)	**1.65**	1.65

Consolidated Balance Sheet

as at December 31, 1973

Assets	1973 $000's	1972 $000's
Current Assets		
Cash	35,376	28,202
Receivables—		
Sales financing—wholesale	235,392	215,289
—retail	725,232	606,912
Dealer loans	20,616	19,447
Inventory financing	4,176	—
Consumer loans	197,479	173,487
Residential mortgages	127,589	94,148
Commercial loans and mortgages	33,669	31,346
Leasing	301,029	220,668
Other	1,730	1,329
Property, vehicles and equipment held for sale	1,752	1,442
	1,648,664	1,364,068
Allowance for doubtful receivables	18,310	16,633
	1,630,354	1,347,435
Income taxes recoverable	8,535	3,957
	1,638,889	1,351,392
Marketable securities—at cost or amortized values plus accrued interest (quoted value 1973—$17,005,000; 1972—$23,532,000) (note 8)	18,405	24,247
Commercial paper receivable	7,765	9,362
	26,170	33,609
	1,700,435	1,413,203
Other Assets and Deferred Charges		
Cash committed for debenture and preferred stock retirement	395	491
Investment in life assurance subsidiary (note 1)	6,195	5,554
Investment in mortgage insurance company (note 1)	2,465	800
Investment in other companies—at cost	1,675	1,394
Leasehold improvements and prepaid expenses	2,595	2,401
Unamortized debt discount and expense	8,678	8,014
Premises and equipment—at cost, less accumulated depreciation of $4,966,000 (1972—$5,159,000)	3,977	4,351
	25,980	23,005
	1,726,415	1,436,208

Signed on behalf of the board **L. E. Nichol,** Director **J. S. Land,** Director

Consolidated Balance Sheet
as at December 31, 1973

Liabilities

	1973 $000's	1972 $000's
Current Liabilities		
Secured demand bank loans	27,460	26,527
Secured short-term notes	527,321	313,926
Medium and long-term debt due within one year	71,758	63,784
Accounts payable and accrued liabilities	82,846	77,276
Income taxes	614	918
Dealer credit balances	16,936	16,331
	726,935	498,762
Secured Medium-Term Notes (Schedule A and note 10)	131,431	106,225
Secured Long-Term Notes (Schedule B and notes 10 and 11)	342,061	351,012
Debentures (Schedule C and note 11)	91,519	100,087
Subordinated Debentures (Schedule D and notes 11 and 13)	12,123	12,519
	577,134	569,843
Unearned Income		
Service charges	140,433	114,593
Casualty insurance premiums	4,856	4,419
	145,289	119,012
Unrealized Foreign Exchange Gain (note 10)	7,658	7,915
Deferred Income Taxes (note 12)	80,962	61,156
	1,537,978	1,256,688

Shareholders' Equity

	1973 $000's	1972 $000's
Capital Stock (Schedule E)		
Preferred shares	18,674	19,145
Common shares (note 13)	44,114	43,852
	62,788	62,997
Retained Earnings (note 6)	125,649	116,523
	188,437	179,520
	1,726,415	1,436,208

Consolidated Statement of Changes in Operating Assets
For the year ended December 31, 1973

	1973 $000's	1972 $000's
Increase in operating assets		
Receivables—		
Sales financing, dealer loans and inventory financing	143,768	129,729
Consumer loans	23,992	14,385
Residential mortgages	33,441	18,156
Commercial loans and leasing	82,684	64,895
	283,885	227,165
Less: Increase in allowance for doubtful receivables	1,677	249
Increase in unearned income	26,277	20,939
	27,954	21,188
	255,931	205,977
Cash and investments in marketable securities and commercial paper	(265)	(32,327)
	255,666	173,650
This net increase in operating assets was provided from the following sources:		
Operations—		
Earnings	22,494	21,994
Amortization of debt discount and expense	18,428	11,458
Amortization and depreciation of fixed assets	1,446	1,468
Provision for deferred income taxes	19,806	16,273
Contribution to earnings of unconsolidated subsidiary and mortgage insurance company	(706)	(605)
	61,468	50,588
Borrowings—proceeds less redemptions—		
Secured bank loans	933	527
Secured short-term notes	195,120	53,666
Secured medium-term notes	1,332	18,867
Secured long-term notes	16,778	38,408
Debentures and subordinated debentures	(3,919)	(952)
	210,244	110,516
Capital stock—		
Preferred shares—cost of redemptions	(342)	(151)
Common shares—proceeds of issues	262	8,573
	(80)	8,422
Net increase in accounts payable, income taxes, dealer credit balances, "other" receivables and property, etc. held for sale	582	19,870
	272,214	189,396
Less: Net expenditure on other assets	3,051	3,968
Dividends paid on preferred and common shares	13,497	11,778
	16,548	15,746
	255,666	173,650

NOTE:
Because of the nature of the activities of the company and its subsidiaries, it is not meaningful to prepare a consolidated statement of source and application of working capital. However, the above statement presents a summary of the changes in operating assets during the years and the sources providing the increase.

Notes to Consolidated Financial Statements For the year ended December 31, 1973

1. Principles of Consolidation

The statements consolidate the accounts of the company and its subsidiaries with the exception of those of The Sovereign Life Assurance Company of Canada. The nature of the business of this subsidiary does not permit a meaningful presentation in the consolidation. The investment in its shares is stated at cost plus the parent company's portion of increase in unassigned surplus of the subsidiary since acquisition.

The Company's 40% investment in shares of The Sovereign Mortgage Insurance Company has been accounted for on the equity method.

2. Gross Income

	1973 $000's	1972 $000's	Increase (decrease) $000's	%
Sales financing and dealer loans	92,561	79,733	12,828	16.1
Consumer loans	34,321	30,400	3,921	12.9
Residential mortgages	14,650	11,365	3,285	28.9
Commercial loans and leasing	23,387	18,968	4,419	23.3
	164,919	140,466	24,453	17.4
Provision for doubtful receivables	5,898	4,479	1,419	31.7
	159,021	135,987	23,034	16.9
Casualty insurance premiums	10,949	9,751	1,198	12.3
Marketable securities and commercial paper	1,577	1,897	(320)	(16.9)
	171,547	147,635	23,912	16.2

3. Expenditure

Expenditure includes the following:

	1973 $000's	1972 $000's
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	47,682	41,667
Depreciation of premises and equipment	1,063	957

4. Remuneration of Directors and Officers

	1973 $	1972 $
Aggregate remuneration of the IAC Limited directors as directors of:		
IAC Limited	73,800	54,400
Niagara Finance Company Limited	8,900	10,550
Merit Insurance Company	9,500	10,500
The Sovereign Life Assurance Company of Canada	6,900	6,700
	$ 99,100	$ 82,150
Number of directors of IAC Limited	16	16
Aggregate remuneration of the IAC Limited officers as officers of IAC Limited	$1,067,810	$1,104,200
Aggregate remuneration of the IAC Limited officers as directors of:		
Niagara Finance Company Limited	1,500	450
Merit Insurance Company	1,300	1,200
The Sovereign Life Assurance Company of Canada	1,400	700
	$ 4,200	$ 2,350
Number of IAC Limited officers	20	19
Number of IAC Limited officers who were also directors	3	3

5. Tax Relief Available for Future Years

(a) It has been the company's policy in accounting for leased assets to record the excess of aggregate rentals over cost as income, to be taken up over the term of the lease in decreasing amounts pro-rata to the declining balance of the investment not yet recovered. For income tax purposes, rentals are treated as income and maximum capital cost allowance is deducted therefrom. Application of this policy in 1973 created a loss for income tax purposes in the parent company of approximately $4,660,000 available for application against future years' taxable income until 1978. The company can preserve this loss carry forward beyond 1978 by adjusting its future claims for capital cost allowances.

(b) In addition, a subsidiary had losses for tax purposes of approximately $270,000 available for application against taxable income of future years not later than as follows:

	$
1974	176,000
1976	94,000

6. Retained Earnings—Statutory Appropriation

As at December 31, 1973 an amount of $6,326,000, equal to the par value of preferred shares purchased for cancellation, had been set aside in the accounts out of retained earnings (1972—$5,855,000).

7. Fully Diluted Common Stock Earnings per Share

Assuming that all options, purchase warrants and conversion rights outstanding at December 31, 1973 had actually been exercised at the beginning of the year or at the dates these potential dilutive factors were created, net fully diluted earnings for the year ended December 31, 1973 would have been $1.60 (1972—$1.57) per share. The calculation assumes that earnings applicable to common shares were increased:

(a) by $31,393 representing the elimination of interest, net of income taxes, attributable to the 7% convertible debentures; and

(b) by $234,442 representing interest at 7½% per annum, net of income taxes, imputed to a notional reduction of borrowings by application of the funds which would have arisen had all options and purchase warrants been exercised.

8. Marketable Securities

Marketable securities include those held by the casualty insurance subsidiary, at cost plus accrued income, amounting to $13,983,000 (1972—$12,491,000) (quoted value 1973—$12,748,000; 1972—$11,921,000).

9. Maturities of Gross Receivables and Payables

(in millions of dollars)

	1 year	2 years	3 years	4 years	5 years	6-10 years	Over 10 years	Total
Receivables								
Sales financing—								
Wholesale	235.4	—	—	—	—	—	—	235.4
Retail	344.7	221.7	97.8	24.1	11.9	24.8	.2	725.2
Dealer loans	4.0	3.4	3.4	4.1	3.9	1.4	.4	20.6
Inventory financing	4.2	—	—	—	—	—	—	4.2
Consumer loans	87.3	66.1	32.5	9.4	2.2	—	—	197.5
Residential mortgages	7.3	8.2	6.3	6.9	6.9	34.4	57.6	127.6
Commercial loans and leasing	45.0	38.4	36.8	31.7	30.9	86.5	65.4	334.7
Other receivables, property, etc. held for sale and income taxes recoverable	12.0	—	—	—	—	—	—	12.0
	739.9	337.8	176.8	76.2	55.8	147.1	123.6	1,657.2
Payables								
Debt*	626.5	43.8	21.4	51.2	16.2	141.1	303.5	1,203.7
Other	86.3	7.8	3.8	1.2	.5	.8	—	100.4
	712.8	51.6	25.2	52.4	16.7	141.9	303.5	1,304.1
Excess of Receivables (Payables)	27.1	286.2	151.6	23.8	39.1	5.2	(179.9)	353.1

*Allocation not adjusted for sinking fund and mandatory purchase fund requirements.

10. Secured Medium and Long-Term Notes Payable in U.S. Funds

Unhedged notes payable in U.S. funds have been converted to Canadian funds at current exchange rates. The gain or loss resulting from the difference between the exchange rate at the date the proceeds were received and the current exchange rate is recorded in "UNREALIZED FOREIGN EXCHANGE GAIN" on the balance sheet. As at December 31, 1973 the amount of $7,658,000 comprises unrealized gains totalling $8,605,000 and unrealized losses of $947,000 in respect of the medium-term notes due in 1982 and 1983 and the Series "S" notes.

Future fluctuations in the exchange rate as they affect outstanding medium and long-term notes payable in U.S. funds will be recorded in this account so long as accumulated unrealized gains exceed unrealized losses.

11. Sinking Fund and Mandatory Purchase Fund Requirements

Maximum annual sinking fund and mandatory purchase fund requirements for each of the five years 1974 to 1978 are as follows:

	$
1974	3,497,300
1975	4,219,150
1976	4,219,150
1977	4,219,150
1978	4,219,150

12. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following balance sheet items:	1973 $000's	1972 $000's
Residential mortgages	487	360
Unamortized debt discount and expense	1,868	1,831
Premises and equipment	200	171
Unearned casualty insurance premiums	570	507
Leasing receivables	80,192	58,287
Loss for income tax purposes (note 5(a))	(2,354)	—
	80,963	61,156

13. Common Shares

Common shares are reserved for issue as follows:	Shares reserved 1973	Shares reserved 1972
(a) Personnel stock purchase plan— This is a continuing plan available after three years of service to all employees, certain of whom are directors, at $15.98 per share during 1974 (1973—$19.12) allocated on a formula based on annual remuneration	136,519	140,383
(b) Stock option plan, expiring November 30, 1976— Available to officers and certain senior personnel as determined by the Board of Directors at a price not less than 90% of the last board lot sale on The Toronto Stock Exchange on the business day next preceding the date upon which the option is granted. As at December 31, 1973 options had been granted to officers, certain of whom are directors, for 34,400 shares and to those eligible for 69,550 shares all at $15.525 per share of which options for 300 shares had been exercised	124,700	—
(c) 1973 stock option plan (expired December 31, 1973)	—	100,000
(d) Purchase warrants exercisable to August 14, 1974 at $12.50 per share attached to the 1966 6¾% subordinated sinking fund debentures	503,630	510,780
(e) Conversion right exercisable until October 31, 1977 at 70 shares (equivalent to $14.285 per share) for each $1,000 of principal of the 1967 7% convertible subordinated debentures	63,420	70,000
	828,269	821,163

During the period 7,150 shares were issued for cash and 6,580 shares were issued on conversion of 7% convertible subordinated debentures.

14. Contingent Liabilities

The company is defendant in legal actions amounting to approximately $2,800,000. Counsel for the company is of the opinion that none of the actions will result in a material liability.

15. Post Balance Sheet Event

Under date of January 29, 1974 a subsidiary, Niagara Realty of Canada Limited, entered into an agreement to issue on March 1, 1974 $25,000,000 9% secured notes series "E" due March 1, 1994. The proceeds of this issue will be $24,218,750 after deduction of discount, underwriting commission and estimated expenses of $50,000. IAC Limited will unconditionally guarantee these notes as to principal, interest and redemption premium, if any.

Details of Secured Medium-Term Notes

Schedule A

(issued for a term of over one and not more than ten years at various rates of interest)

as at December 31, 1973

	Year of maturity	Par value U.S. $000's	1973 $000's	1972 $000's
Payable in Canadian funds— Parent company	1973		—	53,561
	1974		34,533	29,527
	1975		23,391	11,146
	1976		19,354	6,199
	1977		22,673	21,973
	1978		12,605	5
	1979		285	285
	1980		10	10
			112,851	122,706
Niagara Finance Company Limited	1973		—	3,615
	1974		3,196	3,135
	1975		6,090	90
	1976		69	51
	1977		880	880
	1978		172	—
	1979		15	15
	1980		20	20
			10,442	7,806
Payable in U.S. funds (note 10)— Parent company	1973	—	—	6,062
	1974	2,000	1,989	1,989
	1975	12,000	11,969	6,995
	1976	2,000	2,000	2,000
	1977	2,000	2,005	2,005
	1982	20,000	19,928	19,900
	1983	10,000	9,964	—
		48,000	47,855	38,951
			171,148	169,463
Less: Amounts due within one year			39,717	63,238
			131,431	106,225

Notes payable in U.S. funds have been converted to Canadian funds at exchange rates established under forward exchange contracts. The notes maturing in 1982 and 1983 not covered by forward exchange contracts have been converted at current exchange rates.

Details of Secured Long-Term Notes

Schedule B

(issued for a term of more than ten years)
as at December 31, 1973

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	1973 $000's	1972 $000's
Payable in Canadian funds—							
Parent company	1959	"T"	5¾	April 1, 1979		6,000	6,000
	1959	"U"	6½	December 1, 1974		12,500	12,500
	1959	"V"	6½	December 1, 1979		5,000	5,000
	1960	"W"	6	August 15, 1980		7,500	7,500
	1961	"X"	5¾	November 15, 1981		8,500	8,500
	1962	"Y"	5.40	July 2, 1982		10,000	10,000
	1964	"28"	5¾	September 15, 1984		15,000	15,000
	1965	"31"	5¾	March 1, 1985		12,500	12,500
	1965	"33"	6	December 1, 1985		5,000	5,000
	1966	"34"	6½	February 1, 1986		6,000	6,000
	1969	"37"	8¼	May 1, 1974		15,350	15,350
	1972	"39"*	8¾	September 1, 1991		33,865	35,000
						137,215	138,350
Series "37" notes were classified as long-term notes because they could be exchanged at the date of maturity at the holder's option for 8¼% notes maturing May 1, 1979, 8½% notes maturing May 1, 1984 or 8¾% notes maturing May 1, 1989. The 8¼% 1979 notes may in turn be exchanged at maturity for either 8½% 1984 notes or 8¾% 1989 notes. This option expired on November 30, 1973 and holders of $1,400,000 of the 8¼% 1974 notes have elected to exchange their notes for $300,000 8¼% 1979 notes and $1,100,000 8¾% 1989 notes.							
Niagara Finance Company Limited	1964	"1"	5¾	April 15, 1984		10,000	10,000
	1964	"2"	5¾	May 1, 1985		10,000	10,000
	1965	"3"	5¾	May 1, 1985		10,000	10,000
	1966	"4"	7½	December 1, 1986		5,000	5,000
	1968	"5"	8¼	May 1, 1988		7,500	7,500
						42,500	42,500
Niagara Realty of Canada Limited	1970	"A"	9½	December 15, 1990		10,000	10,000
	1971	"B"	7⅞	December 15, 1986		19,650	19,966
	1972	"C"	8¼	August 15, 1982		14,728	15,000
	1973	"D"	7⅞	May 15, 1988		19,898	—
						64,276	44,966
The interest rate on Series "A" notes increases to 9¾% on December 15, 1975. Holders have the right to prepayment on December 15, 1975, 1980 or 1985. Holders of Series "B" notes have the right to prepayment on December 15, 1978. Holders of Series "D" notes have the right to prepayment on May 15, 1980. The parent company has guaranteed Series "A", "B", "C" and "D" notes as to principal, interest and redemption premiums, if any.							
Payable in U.S. funds (note 10)—							
Parent company	1957	"S"	5½	February 15, 1977	16,070	16,012	16,119
	1962	"Z"	5¼	October 1, 1982	10,000	9,964	9,950
	1963	"27"	5¼	April 1, 1988	10,000	9,964	9,950
	1964	"29"	5	October 1, 1984	10,000	9,964	9,950
	1965	"30"	5	February 15, 1985	15,000	14,946	14,925
	1965	"32"	5½	October 1, 1987	20,000	19,928	19,900
	1966	"35"	5¾	February 1, 1986	12,825	12,779	12,761
	1968	"36"*	7¾	October 15, 1986	13,575	13,526	14,228
	1969	"38"*	9½	June 1, 1990	17,500	17,437	17,413
Holders of Series "38" notes have the right to prepayment on June 1, 1975, 1980 or 1985.					124,970	124,520	125,196
						368,511	351,012
Less: Amounts due within one year						26,450	—
						342,061	351,012

*These notes have mandatory purchase fund provisions (note 11).

Details of Debentures

Schedule C

as at December 31, 1973

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1973 $000's**	Outstanding 1972 $000's
Payable in Canadian funds—						
Parent company	1953	5½*	July 2, 1973	5,000	—	546
	1954	5¼*	February 1, 1974	7,500	**3,040**	3,368
	1954	4½*	October 1, 1974	5,000	**2,551**	2,654
	1956	5¼*	June 1, 1975	5,000	**2,308**	2,574
	1957	5¾	January 15, 1977	12,000	**6,067**	6,268
	1957	6	September 1, 1977	5,000	**3,529**	3,744
	1958	5½	February 1, 1978	6,000	**3,411**	3,556
	1959	6	June 15, 1979	10,000	**7,533**	7,817
	1960	6¾	February 1, 1980	10,000	**7,718**	7,909
	1961	5¾	July 2, 1981	10,000	**8,281**	8,537
	1962	5¾	February 15, 1982	10,000	**7,786**	7,903
	1965	6½*	December 15, 1983	10,000	**7,371**	7,889
	1966	7½*	December 15, 1986	10,000	**7,860**	8,118
	1970	9½*†	October 15, 1992	15,000	**14,750**	14,750
					82,205	85,633
Niagara Finance Company Limited	1972	8‡	April 17, 1992	15,000	**14,905**	15,000
					97,110	100,633
Less: Amounts due within one year					**5,591**	546
					91,519	100,087

*Sinking fund debentures (note 11).
†Holders have the right to prepayment on October 15, 1982.
‡Holders have the right to prepayment on April 17, 1977.

Details of Subordinated Debentures

Schedule D

as at December 31, 1973

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1973 $000's**	Outstanding 1972 $000's
Payable in Canadian funds—						
Parent company	1966	6¾*	August 15, 1984	15,000	**11,217**	11,519
	1967	7 **	November 1, 1985	10,000	**906**	1,000
					12,123	12,519

*Sinking fund debentures with common share purchase warrants attached (notes 11 and 13).
**Convertible debentures (note 13).

Details of Capital Stock

Schedule E

as at December 31, 1973

	1973 Shares	1973 Amount $000's	1972 Shares	1972 Amount $000's
Preferred Shares				
Authorized and issued—				
4½% cumulative shares of $100 each redeemable at $101	100,000	10,000	100,000	10,000
Purchased for cancellation	48,576	4,857	45,684	4,568
	51,424	5,143	54,316	5,432
5¾% cumulative shares of $25 each redeemable at $26.50 to May 15, 1977; $26.25 to May 15, 1981 and $25.25 thereafter	600,000	15,000	600,000	15,000
Purchased for cancellation	58,746	1,469	51,483	1,287
	541,254	13,531	548,517	13,713
		18,674		19,145
Common Shares (note 13)				
Authorized without nominal or par value	20,000,000		20,000,000	
Issued and fully paid	13,006,293	44,114	12,988,399	43,852

Auditors' Report to the Shareholders

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

OFFICES THROUGHOUT CANADA
AND IN PRINCIPAL AREAS
OF THE WORLD

TELEPHONE (416) 869-1130
145 KING STREET WEST
TORONTO, ONTARIO, CANADA
M5H 1V8

We have examined the consolidated balance sheet of IAC Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and changes in operating assets for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their operating assets for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

February 20, 1974

COOPERS & LYBRAND
Chartered Accountants

Policies, Accounting Principles and Other Data

Inter-Company Borrowing
IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

Borrowing in Currencies Other than Canadian Dollars
Borrowings in foreign currencies are in U.S. funds except for a line of bank credit in sterling which was arranged by Niagara Finance Company Limited during 1972 for use of its branches in the United Kingdom. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts. This would usually include all short-term notes and all or part of medium-term notes. Unhedged debt is stated at the Canadian equivalent based upon the exchange rate prevailing at the close of the related financial period.

Method of Assessing Doubtful Receivables
The entire portfolio is reviewed for collectibility each month and any 'potential loss' is provided for. After collection possibilities have been exhausted, any balance remaining on the account is written off. In arriving at the allowance for doubtful receivables, the collectibility of all accounts is carefully appraised (1) at branch level, (2) by regional managers*, (3) by division general managers* and (4) if necessary by other executive officers. The shareholders' auditors participate closely in this appraisal during each audit.

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*For parent company and by equivalent ranking officers for each subsidiary.

Delinquencies
Delinquent accounts are those on which the lesser of $25. or half of an instalment is past due one month or more. Renewed accounts are analyzed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. Partial payments, no matter how recent, will not remove an account from delinquent status. Renewals and extensions of accounts are carefully controlled. The Supplement to this Annual Report contains detailed information.

Branch Start-up Expenses
Start-up expenses of new branches are charged to current earnings as and when incurred.

Amortization of Intangibles
Debt discount and expenses are amortized over the term of the related debt instruments. In case of exchange or prepayment at the holder's option the amortization term is calculated to the date of the first option. Leasehold improvements are amortized in accordance with the regulations of the Income Tax Act (Canada). Improvements to owned properties are amortized over five years, or over 10 years if the cost exceeds $10,000.

Depreciation Policies
In the case of buildings, depreciation is booked on a straight-line basis at the rate of 2.5% per annum. The maximum rates allowable are claimed for tax purposes. Any resulting tax difference is recorded as deferred income tax. All other physical assets are depreciated at the rates allowed by tax regulations.

Principles of Consolidation
Note No. 1 of the notes to consolidated financial statements gives details regarding the consolidation of the accounts of the company and its subsidiaries.

Treatment of Leasing Income

For leased assets, the excess of aggregate rentals over cost is taken up as income over the term of the lease in decreasing amounts pro-rata to the declining balance of the investment not yet recovered. For tax purposes, rentals are treated as income and maximum capital cost allowance is deducted therefrom. Any resulting tax difference is recorded as deferred income tax. Gains arising from residual values of leased assets are reflected in earnings only when realized, except where they are contractual. In this case, these values are included in income.

Treatment of Unearned Income

The IAC companies normally use the sum-of-the-digits method of determining unearned service charges. The calculation is performed on an account-by-account basis by computer with no allowance for any 'acquisition charge' in the month a contract is acquired. Income is deferred by IAC, the parent company, in such a way as to maintain the original yield on each account to its maturity.

On IAC contracts written for terms in excess of 48 months, deferred income is taken into earnings on the actuarial yield basis which is more conservative.

Transactions of Niagara Finance Company Limited with precomputed charges involve higher initial costs than those of IAC retail sales finance and in this case, the sum-of-the-digits method is used to defer income on an account-by-account basis, unearned income being always equal to the total maximum rebate refundable for each individual precomputed account, assuming it were paid out immediately after the close of any financial period.

In addition to precomputed service charges, the purchase of regular mortgages at a discount gives rise to deferred income. This is deferred over the lesser of the remaining term of the mortgage or 10 years, on the actuarial yield method.

In respect of combined mortgages, $35 of the 2% non-refundable fee is taken into income in the month the mortgage is written, to offset the same amount of closing fee paid. The balance is taken into income over the following 59 months (the maximum term of such loans is 5 years) using the sum-of-the-digits method.

Unearned casualty insurance premiums are taken into earned income on a straight-line basis as follows:

a) On policies sold directly to the public, 20% of the premium is immediately credited to income to cover acquisition expense. The remaining 80% is taken into earnings over the term of each policy. However, in accordance with income tax regulations, for tax assessment purposes 100% of the premium is deferred.
b) On policies sold to customers using the parent company's financing facilities, the entire premium is deferred to be taken into income over the life of the policy.

Income Tax Allocation

When timing differences occur between accounting income and taxable income, IAC and all its subsidiaries account for income taxes on the tax allocation basis.

Pension Funds

IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees with over one year of service, except those of the life assurance company. The pension plan is based on the average remuneration received over a period of five consecutive years prior to retirement to equal a 'final earnings' plan. This is the result of a change in the pension plan, effective December 31, 1971 which eliminates the need for any updating. The company's contribution for 1973 amounted to $806,000 (1972: $758,000). In addition the company contributed $245,000 (1972: $237,000) to various government pension plans.

The Sovereign Life Assurance Company of Canada has its own pension plan based on retirement at age 65 for employees in service at December 31, 1970 and at age 62 for staff engaged thereafter.

Ten Year Operating and Statistical Summary*

	1973		1972		1971		1970	
Volume of Business ($000's)								
Sales financing—wholesale	1,347,917		1,112,517		955,291		738,933	
—retail	629,425		547,076		431,658		428,543	
Consumer loans	216,769		192,739		175,419		168,422	
Residential mortgages	66,559		41,508		30,084		20,181	
Commercial loans and leasing	124,103		99,127		46,909		47,776	
Net casualty insurance premiums written	11,619		10,257		9,598		10,149	
New ordinary life assurance—business written	67,200		60,200		51,500		47,400	
Assets and Liabilities ($000's)								
Total assets	1,726,415		1,436,208		1,232,940		1,176,661	
Receivables	1,648,664		1,364,068		1,137,241		1,082,954	
Total debt	1,203,673		974,080		850,844		841,506	
Total equity	188,437		179,520		160,882		150,628	
Debt to equity ratio: times	6.39		5.43		5.29		5.59	
Operating Highlights ($000's) (per cent of gross income)								
Gross income	171,547		147,635		138,502		143,244	
Cost of borrowed money	73,280	42.7	55,919	37.9	52,838	38.1	60,693	42.4
General expenses	46,083	26.9	43,214	29.3	40,740	29.4	40,938	28.6
Earnings	22,494	13.1	21,994	14.9	19,415	14.0	16,862	11.8
Preferred dividends	1,019	.6	1,034	.7	1,064	.8	1,079	.8
Earnings applicable to common shares	21,475	12.5	20,960	14.2	18,351	13.2	15,783	11.0
Common Stock Facts								
Earnings per share outstanding —daily average	$1.65		$1.65		$1.50		$1.30	
Per cent return on average equity	13.0		13.8		13.5		12.5	
Dividends paid per share	$ .96		$ .84		$ .80		$ .72½	
Income and other taxes per share	$1.82		$1.69		$1.66		$1.53	
Number of shareholders	12,510		12,672		12,802		13,502	
Number of shares outstanding								
—year end	13,006,293		12,988,399		12,306,118		12,131,720	
—daily average	12,995,747		12,694,400		12,207,770		12,085,813	
—owned in Canada—year end %	95.7		96.2		95.2		94.7	
Book value per share	$13.05		$12.35		$11.50		$10.78	

*Note: The above summary excludes data for The Sovereign Life Assurance Company of Canada, except for volume. Figures prior to 1969 reflect the two-for-one subdivision of common shares in May 1969.

1969	1968	1967	1966	1965	1964
764,918	768,619	626,863	602,313	701,635	560,862
505,063	478,533	380,321	397,036	422,541	402,094
174,752	178,473	164,450	157,019	166,745	155,463
18,113	12,335	13,157	6,111	14,264	13,391
42,986	25,376	18,405	14,443	41,208	46,851
10,882	10,303	10,186	9,592	8,968	10,107
46,900	44,000	36,900	34,500	39,800	35,600

1,152,286	1,076,446	972,696	943,536	983,198	876,001
1,075,552	1,001,013	893,828	887,427	931,533	795,023
843,284	795,448	720,252	697,472	751,948	665,224
143,431	138,305	132,650	126,941	106,728	101,247
5.88	5.75	5.43	5.49	7.05	6.57

136,327		122,510		109,131		107,409		100,713		93,198	
56,030	41.1	48,958	40.0	41,577	38.1	43,386	40.4	37,431	37.2	31,000	33.3
40,161	29.5	36,761	30.0	34,715	31.8	32,628	30.4	32,214	32.0	30,466	32.7
15,484	11.4	14,936	12.2	14,205	13.0	13,509	12.6	12,297	12.2	11,715	12.6
1,118	.8	1,146	.9	1,167	1.1	856	.8	327	.3	382	.4
14,366	10.5	13,790	11.3	13,038	11.9	12.653	11.8	11,970	11.9	11,333	12.2

$1.19	$1.15	$1.09	$1.06½	$1.01	$ .96
12.1	12.1	12.1	12.4	12.4	12.5
$ .70	$ .65	$ .61¼	$ .60	$ .56¼	$ .55
$1.45	$1.33	$1.11½	$1.09	$1.10½	$1.03
13,904	14,081	13,675	13,776	13,220	13,486
12,060,587	11,977,828	11,948,622	11,868,096	11,859,934	11,822,304
11,992,218	11,954,178	11,917,132	11,861,052	11,838,938	11,802,120
94.1	94.1	93.1	92.4	91.1	89.1
$10.17	$9.78	$9.30	$8.84	$8.40	$7.94

Niagara Finance Company Limited

Your company's largest subsidiary, Niagara Finance Company Limited, as its primary business, serves consumers through cash loans and the financing of household durables. At year end these services were provided through 257 offices in Canada and 14 in the United Kingdom.

During the past year it extended its activities to the leasing of capital assets to business and industry.

For the second successive year record growth in consumer-type receivables was achieved. The increase of 14.5% ($28.6 million) resulted in outstandings of $225.9 million in this category at year end.

Gross income totalled $35.0 million, 14.8% higher than in 1972. However increases in the cost of borrowed money and in general and administrative expenses as well as a higher rate of income tax resulted in a decline in earnings from $5,499,000 to $5,333,000. The average cost of borrowed funds was 7.6% as compared to 6.5% in the previous year. The effective tax rate was 50.8% as compared to 47.0% in 1972.

Niagara's portfolio is in sound condition. Net losses in 1973 represented 1.22% of average consumer-type receivables down from 1.36% in the previous year.

The company is continuing to enjoy buoyant demand for its services and it is anticipated that volume will be well maintained in 1974. Any decline in the average cost of borrowed funds would, of course, have a very favourable effect on earnings.

Selected Niagara Finance Statistics:

	1973	1972	1971	1970	1969
Earnings ($ thousands)	**5,333**	5,499	4,524	3,590	3,323
Receivables ($ millions)	**257.5**	198.1	178.3	174.7	170.3

Board of Directors

Roland Chagnon, C.A.
Montreal, Que.
President, Lallemand Inc.

Joseph C. Clapinson
Toronto, Ont.
Retired

James G. Kendrick
Montreal, Que.
President, Zellers Limited

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
Chairman of the Board
Executive Vice-President, IAC

Byron F. London
Toronto, Ont.
President and Chief Executive Officer

Keith H. MacDonald
Toronto, Ont.
President, IAC

Lyndon E. Nichol
Toronto, Ont.
Chairman of the Board, IAC

John L. O'Brien, Q.C.
Montreal, Que.
Partner, O'Brien, Hall, Saunders

John B. Pennefather
Montreal, Que.
Director, IAC

Grant E. Wemp
Toronto, Ont.
Director, IAC

Leighton R. Woodall
Toronto, Ont.
Vice-President and General Manager

Auditors' Report to the Shareholders

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1973 and the statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1973 and the results of its operations and the source and use of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 8, 1974

COOPERS & LYBRAND
Chartered Accountants

Statement of Earnings
For the year ended December 31, 1973

	1973 $	1972 $
Gross Income (note 1)	35,044,746	30,514,771
Expenditure (note 2)		
Cost of borrowed money—		
Secured notes	8,744,429	6,616,183
Debentures	1,271,544	1,139,773
	10,015,973	7,755,956
General and administrative	14,192,097	12,377,300
	24,208,070	20,133,256
	10,836,676	10,381,515
Provision for Income Taxes		
Current	136,601	4,748,000
Deferred	5,366,758	135,000
	5,503,359	4,883,000
Earnings	5,333,317	5,498,515

Statement of Retained Earnings
For the year ended December 31, 1973

	1973 $	1972 $
Earnings for the Year	5,333,317	5,498,515
Dividends		
Class A shares	1,500,000	1,425,000
Common shares	1,500,000	1,425,000
	3,000,000	2,850,000
Increase in Retained Earnings for the Year	2,333,317	2,648,515
Retained Earnings—Beginning of Year	9,562,154	6,913,639
Retained Earnings—End of Year	11,895,471	9,562,154

Statement of Source and Use of Working Capital
For the year ended December 31, 1973
(presented in accordance with the provisions of The Business Corporations Act of Ontario)

	1973 $	1972 $
Source of Working Capital		
Provided from operations	13,818,740	8,144,462
Proceeds from issue of medium-term notes	6,251,000	6,034,000
Increase in unearned income	8,602,113	5,690,802
Proceeds from issue of series "B" debentures	—	15,000,000
	28,671,853	34,869,264
Use of Working Capital		
Increase in leasehold improvements and prepaid expenses	390,350	177,191
Increase in unamortized debt discount and expense	2,299,205	2,410,678
Additions to fixed assets—net	455,219	349,272
Redemption of medium-term notes	3,615,000	805,000
Increase (decrease) in medium-term notes due within one year	(419,000)	2,885,000
Payment of dividends	3,000,000	2,850,000
Redemption of series "A" debentures	—	6,000,000
Redemption of series "B" debentures	95,000	—
	9,435,774	15,477,141
Increase in Working Capital	19,236,079	19,392,123
Working Capital—Beginning of Year	120,491,458	101,099,335
Working Capital—End of Year	139,727,537	120,491,458

Balance Sheet as at December 31, 1973

	1973 $	1972 $
Assets		
Current Assets		
Cash	4,566,093	4,958,916
Receivables—		
Small loans (note 3)	54,829,646	62,984,857
Other loans	142,649,647	110,502,258
Sales financing—retail	28,434,720	23,856,724
Leasing	31,336,894	—
Other	221,365	736,329
Vehicles and equipment held for sale	6,175	15,045
	257,478,447	198,095,213
Allowance for doubtful receivables	4,773,561	4,273,459
	252,704,886	193,821,754
Income taxes recoverable	4,913,543	—
	262,184,522	198,780,670
Other Assets and Deferred Charges		
Leasehold improvements and prepaid expenses	423,527	307,473
Unamortized debt discount and expense	1,179,385	1,411,294
Office equipment and automobiles—at cost, less accumulated depreciation of $953,883 (1972—$925,932)	905,174	763,210
	2,508,086	2,481,977
	264,692,608	201,262,647
Liabilities		
Current Liabilities		
Secured demand bank loans	15,660,000	13,027,500
Secured short-term notes	85,047,512	52,179,743
Secured medium-term notes due within one year	3,196,000	3,615,000
Demand note payable—parent company	4,000,000	1,500,000
Accounts payable and accrued liabilities	14,553,473	7,263,530
Income taxes	—	703,439
	122,456,985	78,289,212
Secured Medium-Term Notes (note 4)	7,246,000	4,191,000
Secured Long-Term Notes (note 5)	42,500,000	42,500,000
Debentures (note 6)	14,905,000	15,000,000
	64,651,000	61,691,000
Unearned Income	34,977,762	26,375,649
Deferred Income Taxes (note 7)	5,711,390	344,632
	227,797,137	166,700,493
Shareholders' Equity		
Capital Stock		
Authorized—		
150,000 5¼% non-cumulative, participating class A shares of $100 each, redeemable at par		
150,000 common shares without nominal or par value		
Issued and fully paid—		
125,000 class A shares	12,500,000	12,500,000
125,000 common shares	12,500,000	12,500,000
	25,000,000	25,000,000
Retained Earnings	11,895,471	9,562,154
	36,895,471	34,562,154
	264,692,608	201,262,647

Signed on behalf of the board L. E. Nichol, Director J. S. Land, Director

Notes to Financial Statements For the year ended December 31, 1973

1. Gross Income

	1973	1972
	$	$
Earned service charges and interest on receivables	38,119,865	33,363,171
Less: Provision for doubtful receivables	3,075,119	2,848,400
	35,044,746	30,514,771

2. Expenditure

Expenditure includes the following shown in accordance with the provisions of The Business Corporations Act of Ontario:

	1973	1972
	$	$
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	4,920,725	4,220,472
Directors' and senior officers' remuneration	147,205	134,593
Depreciation of office equipment and automobiles	313,255	267,647

3. Small Loans

Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is accrued but not precomputed.

4. Details of Secured Medium-Term Notes

(issued for a term of over one and not more than ten years at various rates of interest)

Year of maturity	1973	1972
	$	$
1973	—	3,615,000
1974	3,196,000	3,135,000
1975	6,090,000	90,000
1976	69,000	51,000
1977	880,000	880,000
1978	172,000	—
1979	15,000	15,000
1980	20,000	20,000
	10,442,000	7,806,000
Less: Amounts due within one year	3,196,000	3,615,000
	7,246,000	4,191,000

5. Details of Secured Long-Term Notes

(issued for a term of more than ten years)

Year of issue	Series	Rate %	Maturity date	1973 $000's	1972 $000's
1964	1	5¾	April 15, 1984	10,000	10,000
1964	2	5¾	May 1, 1985	10,000	10,000
1965	3	5¾	May 1, 1985	10,000	10,000
1966	4	7½	December 1, 1986	5,000	5,000
1968	5	8¼	May 1, 1988	7,500	7,500
				42,500	42,500

6. Details of Debentures

Year of issue	Series	Rate %	Maturity date	1973 $000's	1972 $000's
1972	"B"	8	April 17, 1992	14,905	15,000

The holders of Series "B" debentures have the right to prepayment of principal on April 17, 1977.

7. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following balance sheet items:

	1973	1972
	$	$
Unamortized debt discount and expense	296,514	344,632
Leasing receivables	5,414,876	—
	5,711,390	344,632

Niagara Realty of Canada Limited and Subsidiary

Since Niagara Finance Company Limited administers the affairs of these companies their services are made available through a total of 266 branch offices across Canada including 9 specialized mortgage branches.

As the result of continued buoyant demand receivables increased by 35.5% during the year to a total of $127.6 million.

The condition of this portfolio is excellent with write-offs during the year totalling only 0.04% of average receivables outstanding. Delinquency is at a minimal level of 1.31%.

Gross income was up 28.9% for the year but as a result of increases in the cost of borrowed money, general and administrative expenses and the rate of income tax, earnings were only marginally ahead of the previous year at $1,679,000.

The outlook for continued growth is good and should the generally predicted decline in the cost of borrowed funds materialize, earnings will benefit substantially.

Selected Niagara Realty Statistics:

	1973	1972	1971	1970	1969
Earnings ($ thousands)	**1,679**	1,671	1,483	832	579
Mortgage receivables ($ millions)	**127.6**	94.1	76.0	62.6	52.0
Average mortgage balance at year end (dollars)	**6,339**	5,269	4,580	4,099	3,825

Board of Directors

Joseph S. Land
Toronto, Ont.
Executive Vice-President, IAC

Byron F. London
Toronto, Ont.
President and Chief Executive Officer

Keith H. MacDonald
Toronto, Ont.
President, IAC

Stanley F. Melloy
Toronto, Ont.
Senior Vice-President, IAC

Leighton R. Woodall
Toronto, Ont.
Vice-President and General Manager

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Niagara Realty of Canada Limited and subsidiary as at December 31, 1973 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 8, 1974

COOPERS & LYBRAND
Chartered Accountants

Consolidated Statement of Earnings
For the year ended December 31, 1973

	1973 $	1972 $
Gross Income (note 1)	14,358,667	11,140,236
Expenditure		
Cost of borrowed money	7,725,781	5,588,831
General and administrative (note 2)	3,224,468	2,339,045
	10,950,249	7,927,876
	3,408,418	3,212,360
Provision for Income Taxes		
Current	1,477,142	1,368,667
Deferred	252,358	172,533
	1,729,500	1,541,200
Earnings	1,678,918	1,671,160

Consolidated Statement of Retained Earnings
For the year ended December 31, 1973

	1973 $	1972 $
Earnings for the Year	1,678,918	1,671,160
Dividends	1,000,000	900,000
Increase in Retained Earnings for the Year	678,918	771,160
Retained Earnings—Beginning of Year	2,748,502	1,977,342
Retained Earnings—End of Year	3,427,420	2,748,502

Consolidated Balance Sheet as at December 31, 1973

Assets

	1973 $	1972 $
Current Assets		
Cash	4,664,988	2,646,256
Cash committed for unclosed loans	3,792,068	2,315,879
Receivables—		
Residential mortgages	127,588,727	94,148,400
Real estate held for sale—at estimated realizable value	27,847	16,971
Other	138,685	178,647
	127,755,259	94,344,018
Allowance for doubtful receivables	957,124	706,240
	126,798,135	93,637,778
	135,255,191	98,599,913
Other Assets		
Prepaid expenses	6,281	8,214
Unamortized debt discount and expense	1,180,994	906,822
Office equipment and automobiles—at cost, less accumulated depreciation of $34,723 (1972—$52,296)	43,361	40,587
	1,230,636	955,623
	136,485,827	99,555,536

Liabilities

	1973 $	1972 $
Current Liabilities		
Demand note payable—parent company	55,964,235	42,244,000
Accounts payable and accrued liabilities	1,748,032	1,726,488
Income taxes	224,134	187,858
	57,936,401	44,158,346
Secured Long-Term Notes (note 3)	64,276,000	44,966,000
Deferred Income (note 4)	2,347,800	1,936,840
Deferred Income Taxes (note 5)	998,206	745,848
	125,558,407	91,807,034

Shareholders' Equity

	1973 $	1972 $
Capital Stock		
Authorized—		
2,000,000 common shares of $5 par value		
Issued and fully paid (note 6)—		
1,500,000 shares	7,500,000	5,000,000
Retained Earnings	3,427,420	2,748,502
	10,927,420	7,748,502
	136,485,827	99,555,536

Signed on behalf of the board **B. F. London**, Director **L. R. Woodall**, Director

Notes to Consolidated Financial Statements

For the year ended December 31, 1973

1. Gross Income

	1973 $	1972 $
Earned income on mortgages	14,650,125	11,365,785
Less: Provision for doubtful receivables	291,458	225,549
	14,358,667	11,140,236

2. General and Administrative Expenses

General and administrative expenses include the following:

	1973 $	1972 $
Depreciation of office equipment and automobiles	17,002	15,264
Remuneration of directors and officers—		
Aggregate remuneration of directors as directors	nil	nil
Number of directors	5	5
Aggregate remuneration of officers as officers	nil	21,200
Number of officers	8	5
Number of officers who are also directors	2	2

The affairs of the companies are largely administered by Niagara Finance Company Limited.

3. Details of Secured Long-Term Notes

Year of issue	Series	Rate %	Maturity date	1973 $000's	1972 $000's
1970	"A"	9½*	December 15, 1990	10,000	10,000
1971	"B"	7⅞**	December 15, 1986	19,650	19,966
1972	"C"	8¼	August 15, 1982	14,728	15,000
1973	"D"	7⅞***	May 15, 1988	19,898	—
				64,276	44,966

*The interest rate on these notes increases to 9¾% on December 15, 1975. Holders have the right to prepayment on December 15, 1975, 1980 and 1985.

**Holders have the right to prepayment on December 15, 1978.

***Holders have the right to prepayment on May 15, 1980.

Series "B", "C" and "D" notes have purchase fund provisions.

IAC Limited has guaranteed Series "A", "B", "C" and "D" notes as to principal, interest and redemption premiums, if any.

4. Deferred Income

This arises from mortgages purchased at a discount and from fees received in advance on certain mortgages.

5. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income or expenses associated with the following balance sheet items:

	1973 $	1972 $
Residential mortgages	487,511	360,086
Unamortized debt discount and expense	510,695	385,762
	998,206	745,848

6. Capital Stock

During the year 500,000 shares were issued for a cash consideration of $2,500,000.

7. Source and Use of Working Capital

Because of the nature of the activities of the company and its subsidiary it is not meaningful to prepare a consolidated statement of source and use of working capital.

8. Subsequent Event

Under date of January 29, 1974 the company entered into an agreement to issue on March 1, 1974 $25,000,000 9% secured notes, series "E" due March 1, 1994. The proceeds of this issue will be $24,218,750 after deduction of discount, underwriting commission and estimated expenses of $50,000. IAC Limited will unconditionally guarantee the principal, interest and redemption premium, if any.

Merit Insurance Company

In 1973 written premiums increased 13% to $11.6 million (1972 — $10.3 million). This increase was distributed satisfactorily in all lines of direct business. Earned premiums increased 12% from 1972.

The overall loss ratio was 75.61% up from 69.12% for the previous year. Although the frequency of claims in all areas dropped slightly, increases in the cost of individual claims was the main reason for the higher loss ratio. Inflation has a severe impact on the claims costs and the present day cost is offset against premiums the rates of which were established up to as much as three years ago, e.g. on three-year fire policies. This trend required additional provision even for previous year claims.

After providing fully for current and past year claims, expenses and taxes, despite the increase in income from investments, earnings amounted to $298,000, compared to $421,000 in 1972.

In 1974 auto premium income from British Columbia will cease. Continued political difficulties in securing adequate rates, coupled with inflationary pressures will remain to have adverse effects.

Your company is responding to this by introducing one-year fire policies to offset the impact of inflation, upgrading quality and increasing premium rates whenever possible. Co-ordination between Merit and Sovereign continued to yield beneficial advantages to both companies. In the coming year continued concentration on the multi-line concept of the integrated agency forces including greater similarity of identification should improve sales results with attendant cost advantages.

These steps, when combined with some easing in general inflationary conditions, should contribute to improved results in 1974.

Selected Merit Insurance Company Statistics:

(Thousands of Canadian Dollars)	**1973**	1972	1971	1970	1969	1968	1964
Premiums earned	**10,949**	9,750	9,524	10,301	10,638	10,292	9,794
Claims incurred	**8,278**	6,739	6,510	7,343	8,403	6,839	8,596
Expenses	**3,244**	3,288	3,560	3,361	3,464	3,158	2,933
Underwriting gain (loss)	**(573)**	(277)	(545)	(403)	(1,229)	294	(1,735)
Investment and other income	**933**	725	735	699	847	663	1,014
Income taxes	**62**	28	11	50	(109)	182	—
Earnings (loss)	**298**	421	179	246	(273)	775	(721)

Board of Directors

Hon. Louis P. Beaubien
Montreal, Que.
Senator

Roland Chagnon, C.A.
Montreal, Que.
President, Lallemand Inc.

Hon. E. Davie Fulton, Q.C.
Vancouver, B.C.
Partner, Fulton, Cumming, Richards, Underhill, Fraser & Skillings

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
Chairman of the Board
Executive Vice-President, IAC

William R. Livingston
Toronto, Ont.
President

Keith H. MacDonald
Toronto, Ont.
President, IAC

Douglas W. Maloney
Toronto, Ont.
Senior Vice-President, IAC

Lyndon E. Nichol
Toronto, Ont.
Chairman of the Board, IAC

John L. O'Brien, Q.C.
Montreal, Que.
Partner, O'Brien, Hall, Saunders

John B. Pennefather
Montreal, Que.
Director, IAC

Renault S. St-Laurent, Q.C.
Quebec, Que.
Partner, St-Laurent, Monast, Walters, Gagné & Vallières

Grant E. Wemp
Toronto, Ont.
Director, IAC

Donald J. Wilson
Toronto, Ont.
Vice-President & Managing Director

Statement of Earnings
For the year ended December 31, 1973

		1973 $		1972 $	1973 %	1972 %
Premiums						
Net premiums written		11,619,102		10,257,478		
Less: Reinsurance premiums		232,737		268,754		
Net premiums retained		11,386,365		9,988,724		
Change in unearned premium reserve		(437,311)		(238,173)		
Premiums Earned		10,949,054		9,750,551	100.00	100.00
Expenses						
Claims incurred	7,651,369		6,181,576			
Staff adjusting expenses	626,979	8,278,348	557,841	6,739,417	75.61	69.12
		2,670,706		3,011,134	24.39	30.88
Commissions	1,110,220		1,080,231			
General and administrative	1,834,343		1,929,137			
Taxes and licences	299,431	3,243,994	278,768	3,288,136	29.62	33.72
Underwriting Loss		(573,288)		(277,002)	(5.23)	(2.84)
Other Income						
Income from investments	782,273		639,494			
Gain on sale of investments	150,872	933,145	85,733	725,227		
		359,857		448,225		
Income Taxes (note)						
Current	36,315		89,738			
Deferred	61,728	98,043	27,555	117,293		
Earnings Before Extraordinary Item		261,814		330,932		
Extraordinary Item						
Reduction of income taxes on application of prior year's loss		36,315		89,738		
Earnings		298,129		420,670		

Note:

As at December 31, 1973, there were approximately $270,000 of losses which may be applied against taxable income of future years. These losses expire as follows: 1974—$176,000 1976—$ 94,000

Statement of Retained Earnings
For the year ended December 31, 1973

	1973 $	1972 $
Earnings for the Year	298,129	420,670
Retained Earnings at Beginning of Year	4,712,964	4,292,294
Retained Earnings at End of Year	5,011,093	4,712,964

Balance Sheet as at December 31, 1973

	1973 $	1972 $
Assets		
Cash	197,215	307,554
Reinsurer's deposit in respect of outstanding claims (contra)	89,376	292,536
Accounts receivable	2,011,672	1,808,210
Prepaid expenses	20,582	6,151
Investments—at cost plus accrued income (quoted value 1973—$12,748,126; 1972—$11,921,491)	13,983,018	12,490,613
Office equipment and automobiles—at cost, less accumulated depreciation of $295,950 (1972—$286,427)	146,431	159,871
Leasehold improvements—at cost, less amounts written off	187,848	216,533
	16,636,142	15,281,468
Liabilities		
Accounts payable and accrued liabilities	212,869	238,486
Accrued premium taxes	124,613	52,520
Provision for outstanding claims and adjusting expenses	4,113,182	3,398,992
Reinsurer's advance (contra)	89,376	292,536
	4,540,040	3,982,534
Unearned premium reserve	4,856,130	4,418,819
Deferred income taxes	568,579	506,851
	9,964,749	8,908,204
Shareholders' Equity		
Capital stock Authorized— 10,000 shares of $100 each Issued and fully paid— 5,830 shares	583,000	583,000
Premium on shares issued	327,300	327,300
Contributed surplus	750,000	750,000
Retained earnings	5,011,093	4,712,964
	6,671,393	6,373,264
	16,636,142	15,281,468

Signed on behalf of the board J. S. Land, Director W. R. Livingston, Director

Auditors' Report to the Shareholders

We have examined the balance sheet of Merit Insurance Company as at December 31, 1973 and the statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1973 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 5, 1974

COOPERS & LYBRAND
Chartered Accountants

The Sovereign Life Assurance Company of Canada

New ordinary insurance and annuities issued in 1973 totalled $67.2 million. This represented an increase of 12% over the previous year, establishing another company sales record.

The total of ordinary insurance and annuities in force grew to $411.2 million, also a new company record. Group insurance in force reflected the same trend amounting to $483.8 million.

Revenue, comprising premiums and investment earnings including interest, dividends and rents, amounted to $14,960,105 (1972—$13,839,415). The improvement in investment earnings resulted from a larger portfolio and a higher net yield of 6.86% (1972—6.58%).

The present value, discounted at 5%, of future earnings, after tax, from business now in force and from which earnings would continue even if Sovereign were to cease all selling activity, was calculated at December 31, 1973 to be $3,222,042 (1972—$3,132,178).

Copies of the Sovereign 1973 report, which reflects another year of solid progress, are available from the Secretary of Sovereign or of IAC.

Selected Sovereign Life Statistics

(Millions of Canadian Dollars)	**1973**	1972	1971	1970	1969	1962*
Insurance in force:						
Ordinary	**411.2**	375.8	343.7	323.3	311.0	216.2
Group	**483.8**	471.7	401.4	420.0	449.6	2.6
Total	**895.0**	847.5	745.1	743.3	760.6	218.8
New business written:						
Ordinary	**67.2**	60.2	51.5	47.4	46.9	13.8
Group (Net change)	**12.1**	70.4	(18.7)	(29.6)	62.8	0.7
Policy reserves	**50.5**	48.3	46.7	45.4	45.6	37.2
Total assets	**72.6**	68.4	65.4	63.2	62.5	46.1
Net interest earned: Per cent	**6.86**	6.58	6.37	6.37	6.20	5.21

*Year of acquisition by IAC.

Board of Directors

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Toronto, Ont.
Partner, Gardiner, Roberts

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Montreal, Que.
Ecole des Hautes Etudes Commerciales

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Partner, Fulton, Cumming, Richards, Underhill, Fraser, Skillings

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Grant E. Wemp
Toronto, Ont.
Director, IAC

Robert J. Wilson
Montreal, Que.
Group Vice-President, The Royal Trust Company

Statement of Revenue For the year ended December 31, 1973

	1973 $	1972 $
Revenue		
Premiums and annuity considerations	10,285,998	9,600,438
Interest, dividends and rents, less related expenses of $286,811 (1972—$275,242)	4,674,107	4,238,977
	14,960,105	13,839,415
Policyholder Distribution and Expenditures		
Amounts paid to or set aside for policyholders and beneficiaries—		
Death and ordinary disability claims	2,491,210	2,865,765
Group disability claims	1,428,532	1,273,979
Matured endowments	921,764	876,735
Annuity benefits	256,141	200,868
Surrender values	1,514,941	1,365,517
Increase in reserves for insurance and annuity contracts	2,237,769	1,597,982
Interest credited to funds on deposit and pension fund	333,731	285,983
	9,184,088	8,466,829
Dividends to participating policyholders (including change in provision)	808,746	797,772
Policyholders' investment taxes	135,000	119,000
Group experience rating refunds (including change in provision)	556,476	483,573
	10,684,310	9,867,174
Operating Expenses	3,258,384	3,127,146
	13,942,694	12,994,320
Operating Revenue Before Income Taxes	1,017,411	845,095
Provision for Income Taxes	422,000	447,000
Operating Revenue	595,411	398,095
Gain on disposal of securities, less income taxes	118,031	56,365
Excess of Revenue Before Overprovision of Prior Years' Taxes	713,442	454,460
Overprovision of prior years' taxes	—	116,436
Excess of Revenue for the Year	713,442	570,896

Statement of Unassigned Surplus For the year ended Dec. 31, 1973

	1973 $	1972 $
Unassigned Surplus—Beginning of Year	7,840,384	7,369,488
Excess of revenue for year	713,442	570,896
	8,553,826	7,940,384
Allocation to contingency reserve	—	100,000
Unassigned Surplus—End of Year (note 2)	8,553,826	7,840,384

Balance Sheet as at December 31, 1973

	1973 $	1972 $
Assets		
Bonds and debentures, at amortized cost or less (note 1)	24,684,660	24,783,176
Common and preferred stocks, at cost or less (note 1)	4,153,923	3,955,005
First mortgages and agreements for sale on real estate	36,520,701	32,660,793
Loans on policies, secured by cash values	3,928,645	3,889,187
Real estate— Purchased for income, at cost, less amounts written off—$131,786 (1972—$112,702)	992,668	1,011,751
Cash and short-term investments	1,417,828	1,204,585
Premiums in course of collection	204,565	208,241
Investment income due and accrued	725,495	670,124
Other assets	6,588	43,468
	72,635,073	68,426,330
Liabilities		
Reserves for insurance and annuity contracts	50,505,695	48,267,926
Policyholders' funds on deposit	4,342,213	3,976,799
Policy claims in course of settlement and provision for unreported claims of $330,000 (1972—$365,000)	715,397	853,591
Mortgagors' tax prepayments	760,036	671,261
Premium and other taxes accrued	441,446	356,806
Other liabilities and accruals	547,260	145,447
Provision for dividends to policyholders	1,967,246	1,936,817
Provision for experience rating refunds	792,995	546,721
Staff and agents' pension and insurance funds	1,851,784	1,673,403
	61,924,072	58,428,771
Capital and Surplus		
Capital stock		
Authorized—10,000 shares of $100 each		
Issued—8,406 shares of $100 each of which 27 shares are fully paid and 8,379 shares are $25 paid	212,175	212,175
Investment reserve	1,000,000	1,000,000
Contingency reserve	850,000	850,000
Shareholders' surplus	95,000	95,000
Unassigned surplus (note 2)	8,553,826	7,840,384
	10,711,001	9,997,559
	72,635,073	68,426,330

Signed on behalf of the board J. S. Land, Director W. R. Livingston, Director

Notes to Financial Statements For the year ended December 31, 1973

	1973 $	1972 $
1. Valuation of Bonds, Debentures and Preferred and Common Stocks		
Value stated in the balance sheet	28,838,583	28,738,181
Estimated market value	26,171,450	27,398,551
Maximum value at which these securities may be carried as prescribed by the insurance laws of Canada	27,911,138	28,241,797

2. Unassigned Surplus

The shareholders' portion of the unassigned surplus amounts to $3,632,415 (1972—$2,991,091) of which $641,324 (1972—$604,682) represents the shareholders' share of the net increase in unassigned surplus for the year.

Auditors' Report to the Policyholders and Shareholders

We have examined the balance sheet of The Sovereign Life Assurance Company of Canada as at December 31, 1973 and the statements of revenue and unassigned surplus for the year then ended. Our examination included verification of the cash and investments in bonds and stocks by certificates from the depositories, a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. The reserves and other liabilities under the various assurance and annuity contracts are stated at amounts certified by the company's actuary.

In our opinion, based upon our examination and upon the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1973 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

January 31, 1974

COOPERS & LYBRAND
Chartered Accountants

Officers and Directors

Officers

Chairman of the Board
L. E. Nichol

President
K. H. MacDonald

Executive Vice-President
J. S. Land

Senior Vice-President and Senior General Manager
D. W. Maloney

Senior Vice-President and General Manager - Operations
R. E. Campbell

Senior Vice-Presidents
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F. P. Paradis

Vice-Presidents
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W. P. Davidson
W. E. Hoddinott
R. K. Jackson
B. F. London
E. W. McCracken
W. J. VanWyck

Assistant Vice-President and Treasurer
S. S. Ilaqua

Assistant Vice-President and Secretary
C. R. Stewart

Assistant Vice-President and Comptroller
J. J. Tors

Assistant Vice-Presidents
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J. C. Biron
G. J. Chevrier
G. C. Clerk
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J. H. Dionne
L. G. Gravel
R. Hemond
K. G. Inch
N. V. Keyes
A. S. Mackay
R. V. MacNeill
B. S. Mowatt
J. R. A. Noel
D. A. Rattee
R. S. Tunnoch
T. A. Wolff
K. E. Woodall

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Chairman, Inland Natural Gas Co. Ltd.

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Halifax, N.S.
Partner, Stewart, MacKeen & Covert

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President, Union Carbide Canada Ltd.

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Executive Vice-President

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Toronto, Ont.
President

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Toronto, Ont.
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Chairman of the Executive Committee

Paul L. Paré
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Quebec, Que.
Partner, St-Laurent, Monast, Walters, Gagné & Vallières

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Toronto, Ont.
Honorary Chairman of the Board

Dennis K. Yorath
Edmonton, Alta.
Vice-Chairman IU International Corporation

*Member of the Executive Committee of the Board as at December 31, 1973

President K.H. MacDonald, Chairman L.E. Nichol and Executive Vice-President J.S. Land.

Divisional General Managers (back row, l. to r.) A.P. Bolin of Western Division and R.K. Jackson of Capital Funds with (seated, l. to r.) W.J. VanWyck of Ontario and F.P. Paradis of Quebec.

Vice-President E.W. McCracken, (back, l.) with Senior Vice-Presidents S.F. Melloy (back, r.) and (seated, l. to r.) D.W. Maloney and R.E. Campbell.

Vice-Presidents (l. to r.) J.Y. Buchanan, W.E. Hoddinott and W.P. Davidson.

Niagara President B.F. London with Sovereign Life President W.R. Livingston.

Banks with which lines of credit are established

Canada

The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto Dominion Bank
Bank Canadian National
The Provincial Bank of Canada
The Mercantile Bank of Canada
The Bank of Nova Scotia
Bank of British Columbia

U.S.A.

Morgan Guaranty Trust Company of New York
Continental Illinois National Bank and Trust Company of Chicago
The Chase Manhattan Bank NA
The First National Bank of Chicago
Bankers Trust Company
First National City Bank
Chemical Bank
Manufacturers Hanover Trust Company
Crocker National Bank
Irving Trust Company
Marine Midland Bank—Western
National Bank of Detroit
National Bank of North America
Security Pacific National Bank
Wells Fargo Bank NA
Mellon Bank NA
The Northern Trust Company
United California Bank
French American Banking Corporation
Schroder Trust Company
The Bank of New York

Transfer Agents

Common Stock
Montreal Trust Company
Montreal, Toronto, Regina, Calgary and Vancouver

The Bank of New York
New York

Preferred Stock
The Royal Trust Company
Montreal, Toronto, Regina, Calgary and Vancouver

Registrars

Common Stock
Canada Permanent Trust Company
Montreal and Toronto

The Royal Trust Company
Regina, Calgary and Vancouver

The Bank of New York
New York

Preferred Stock $100 Par Value
Montreal Trust Company
Montreal, Toronto, Regina, Calgary and Vancouver

Preferred Stock $25 Par Value
Guaranty Trust Company of Canada
Montreal, Toronto, Regina, Calgary and Vancouver

Stock Listings

Montreal Stock Exchange

Toronto Stock Exchange

Vancouver Stock Exchange – *Common Stock only*

Auditors

Coopers & Lybrand
Toronto, Chartered Accountants

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